Appendix: Part A - Case Studies of Each Investment

Firm A: Auto Electrical

This firm repaired around 250 vehicles per month at the time of investment. The owner was seeking investment to help buy a vehicle scanning machine, which would allow automated scanning of newer vehicles that have electronic components. The firm owner saw potential for new business arising from vehicle imports arriving at the new port. This machine would be imported from Singapore, and would come with 1 month of training from the manufacturer. Currently these types of jobs either have to be done manually and take 2 days, with high risk, or else the business owner has to send the customer to Colombo. The machine costs Rs. 800,000. The owner had saved Rs 300,000 towards this, and was seeking funding of Rs 500,000 for the remainder.

He had previously taken out two loans of Rs 225,000 from a vocational training institute and Rs 600,000 from a commercial bank. The first loan had been completely repaid; the latter was ongoing. He was quite confident of being able to secure additional loan financing from a newly opened bank branch in town. However, his interest was piqued by the innovativeness of the microequity contract – and hence decided to go ahead with the equity contract for Rs 500,000.

He purchased the equipment as planned and received training in the equipment use. However, the business generated from new equipment was lower than envisaged, with few new customers generated from the port, and customers who he thought he would attract continuing to go to authorized agents in Colombo. Nevertheless, he paid all payments on time, and completed the contract as designed.

Firm B: Tyre and Battery Sales

The owner had been running a tyre and battery sales business. He wanted to open a tyre services business in a new location to take advantage of the anticipated growth opportunities with port and airport traffic taking place in the city of Hambantota. This new business would offer tyre changing, tyre repair and sales, battery charging and replacement, and other related services. Setting up this new location would cost Rs. 906,000 for machinery and infrastructure, and the owner would contribute Rs. 206,000, seeking an investment of Rs. 700,000 for the remainder.

He had previously taken out a loan of Rs 150,000 from a commercial bank. This loan was still ongoing. With new bank branches opening in town he was considering taking out additional loan for the new expansion. However he felt that the equity contract was less cumbersome in nature and decided to go ahead with the equity contract for Rs 700,000.

He opened a new branch soon after signing of the agreement, but business did not develop as envisaged. The owner experienced cash flow issues with corporate customers who delayed in payments, and stopped giving customer credit as a result, which limited customer base expansion. He paid on time through the first ten months, and then made no payments after that. Part of the reason was a robbery at his original location. He also had to face a family illness situation. At the end of the contract he was in substantial arrears.

During the arbitration process, he made a small payment (less than 10%) of the amount outstanding. As a result this case went to court. The court case came to a settlement after 7 hearings over 14 months, where the firm agreed to pay the amount outstanding over 36 monthly installments.

Firm C: Motor coil rewinding

This firm did electrical services, with the main service being motor coil rewinding. The owner was seeking to expand the range of services by buying a new lathe machine (Rs. 285,000) and an additional coil winding machine (Rs. 45,000). He sought an investment of Rs. 250,000, covering the remainder from own savings.

Even though the firm had been in existence for 13 years, the owner had not previously taken out any loans for the business, but did rely on trade credit facilities provided by suppliers. Due to his general reluctance to use debt financing, the owner was attracted to the concept of equity financing. He entered into an agreement for an investment of Rs 250,000.

He purchased the coil rewinding machine, but held off on purchasing the lathe. The demand for rewinding services was lower than expected, and customers preferred to purchase new fans rather than repairing. However, actual revenues were reasonably consistent with projected figures, and he successfully paid his principle and revenue-share payments on time over the three years.

Firm D: Printer

This firm carried out printing work (bill books, notices, making stencils, leaflets, posters, books, seals, etc.). This work was done for the Water Board, hotels, private tuition teachers, other businesses, as well as individual consumers. He was seeking to expand his range of products by purchasing a dye-cutting machine. This machine costs Rs. 650,000 including transportation and insulation, and the owner requested an investment of Rs. 500,000, covering the remainder from own savings. One of the key customers for the new service would be Air Lanka’s catering service.

He had previously obtained a loan of Rs 200,000 from a commercial bank and this loan repayment was still ongoing.

He purchased the dye-cutting machine and set up the new location as promised, and made payments for the first seven months regularly but then ran into arrears. Sales were slower than expected. The airport expansion did not take place which directly affected his proposed business expansion. The owner also developed an allergy to the printing dye and was not able to work for awhile.

Even though he continued to make irregular payments during the contract, he was in substantial arrears at the end of the contract. Partial payment of arrears was made during arbitration. The remaining outstanding amount was settled in full out-of-court at the beginning of the litigation process.

Firm E: Vehicle Painting

This firm carried out vehicle painting, with the main service being to paint three-wheelers. The owner was seeking Rs. 500,000 in funding in order to construct a heat room and a garage, as well as buy a new compressor and spray gun, contributing Rs. 50,000 of own funding. This would enable him to handle additional business, as well as attract more customers.

Previous attempts at obtaining debt financing from financial institutions had proved unsuccessful due to the lack of collateral. For this reason, he was very interested in the equity contract concept. He signed an agreement for an investment of Rs 500,000.

He constructed the heat room and started operating it. But the owner claimed business dropped dramatically due to the entry of a low cost competitor into the area, so that revenues were much less than anticipated. He paid on time through the first six months, and then paid the revenue sharing payment only in the seventh month, and then ran into arrears. Even though he did make some additional payments later on he was in substantial arrears at the end of the contract.

At the beginning of the arbitration process, he paid 25% of the outstanding amount as required, but did not make any of the balance monthly payments. Hence this case proceeded to court. The court case came to a settlement after 8 hearings over 17 months, where the firm agreed to pay the amount outstanding over 24 monthly installments.

Firm F: Vehicle and Boat Servicing

This firm provides mobile servicing of vehicles, machinery, and boats. The most common service offered was servicing multi-day trawler boats, but other work also included servicing paddy harvesting machines and other farm equipment on-site. The owner wanted to start a new location servicing hydraulic hoses (in bulldozers, heavy machinery, tractors, paddy harvesters, etc.) and selling three-wheeler and bike spare parts. This would require Rs. 1 million in investment, largely in new machinery, towards which the owner would supply half, and would seek Rs. 500,000 investment.

He had previously obtained three loans of Rs 100,000 each from the business chamber's youth business programme, a commercial bank and a specialized bank respectively. The former two had been repaid fully. The latter was still ongoing. The owner entered into an equity contract for Rs 500,000.

However, after financing, he did not purchase equipment, nor did he start operations at the new location. He cut back on mobile servicing work, claiming that this was due to more customers using do-it-yourself pressure washing machines, and to his vehicle being out of service for a while, and instead he did shift work at the airport as a wage worker. As a result, he claimed to have business revenue in only two months within the first year, and made principle repayments only during the first two years and then ran into arrears. Partial settlement (around 16%) of amount outstanding was done during the arbitration process. As a result the case proceeded to court. The court case came to a settlement after 6 hearings over 12 months, where the firm agreed to pay the amount outstanding over 24 monthly installments.

Firm G: Yoghurt and Flavored Ice

The main product sold by this firm was yoghurt, which was made and sold to retailers and canteens. The firm was also selling flavored ice packets, but wanted an investment to enable him to purchase an ice packeting machine costing Rs 550,000 that would enable different sizes and flavors of this product to be made. The owner had saved Rs. 100,000, and sought Rs. 450,000 investment.

The owner had previously obtained and completed repayment of two loans of Rs 35,000 and Rs 175,000 from an international NGO and the local chamber of commerce respectively. He had also obtained two additional loans from a local development bank for Rs 395,000 and Rs 400,000 where the repayments were still ongoing. In this context, the owner entered into an equity contract for Rs 450,000.

He purchased this equipment, and the new drink packets in different sizes became operational. He was able to sell to about 25 new customers/shops on 2 new routes. He envisaged expansion into several new delivery routes, but this has been somewhat limited due to lack of sales force with marketing abilities. He also started full-time work in a government agency and so the business became a part-time venture with greater family involvement. Even though there were some arrears at the end of the contract, he made all the payments required with some delays.

Firm H: Coir and Rope

Coir is the fiber from the outside husk of the coconut. The owner was in business making coir rope, selling 1,500-2,000 units per month. He also wanted to start producing brooms, and sought an investment of Rs. 360,000 to pay for the cost of a specialized machine to make these brooms (Rs. 200,000) and for infrastructure needed around the new machine (Rs. 160,000).

He had previously taken a loan of Rs 150,000 from the chamber of commerce. The repayment was still ongoing and involved a small monthly installment amount. He entered into an equity contract for Rs. 360,000.

After paying the initial two months of revenue share, he ran into arrears. He eventually paid only another two months of revenue share and two months of principal payments. He also evaded monitoring visits/calls throughout the contract period. The contract ended with substantial arrears. Even though he agreed to a repayment plan during the arbitration process, no payment was made. Hence this case proceeded to court. The court case came to a settlement after 3 hearings over 8 months, where the firm agreed to pay the amount outstanding over 28 monthly installments.

Firm I: Processed fruit drinks

This firm made processed fruit drinks, selling approximately 3,500 units a month to retailers, canteens, and consumers. The owner wanted to increase production capacity, and improve the quality of the product so that it met national quality standards (which would then make it possible to sell to more stores and customers). He wanted to buy a water boiling unit, deep freezer, water treatment unit, and filling capping machine that would cost Rs. 700,000, contributing Rs. 150,000, and seeking an investment of Rs. 550,000.

He had recently obtained a loan of Rs 400,000 from a commercial bank. He entered into an equity contract for Rs. 550,000. We note that given his choice of contract parameters he would repay only Rs 412,500 of this amount.

He purchased most of the above equipment, with the exception of the filling capping machine and started the quality certification process. However, the new lid design led to spoilage and returns of around 5,000 bottles, and a court case because of the spoilage.

He ran into arrears after making two months of revenue share payments. He subsequently paid two months of principal payment. No further payment was made during the arbitration process. Hence the case proceeded to court. The court case came to a settlement after 4 hearings over 10 months, where the firm agreed to pay the amount outstanding over 26 monthly installments.

Appendix: Part B – Copy of Joint Venture Agreement

JOINT VENTURE AGREEMENT

No: __________

This **Joint Venture Agreement** (hereinafter referred to as '**the JVA'**) made and entered into at **Hambantota** on this __(date)__ day of __(month)__, __(year)__ by and between **K C G EQUITY (PRIVATE) LIMITED,** a Company duly incorporated under the Companies Act No.7 of 2007 bearing Registration No. __(Reg No)__ and having its Registered Office at ___(business address)___ in the District of Kandy, Central Province in the Republic of Sri Lanka (hereinafter referred to as '**the Party of the First Part**' which term or expression mean and include the said **K C G EQUITY (PRIVATE) LIMITED** and its successors and assigns) and Proprietor _____ (full name) _____, holding National Identity Card No __(NIC)__ and carrying business under the name of ___(business name)___ bearing Business Registration Certificate No ___(BRC No)___, and having its Registered Office at ___ (business address) ___, in the District of Hambantota, Southern Province in the Republic of Sri Lanka (hereinafter referred to as '**the Party of the Second Part**' which term or expression mean and including the said _____________ and his successors and assigns, heirs, executors, administrators and assigns).

Witnesseth

WHEREAS the **K C G EQUITY (PRIVATE) LIMITED** is a Company engaged *inter-alia* in the business of providing investment contribution and financial resources and assistance to Companies/Partnerships/Proprietors and Individuals engaged in businesses to develop their business,

AND WHEREAS the Party of the Second Part is carrying out business under the name ____(business name) ___ ‘bearing Registration No ___(BRC No)___ and having its Registered Office at _____ (business address) ____ (hereinafter referred to as the **‘said business’**).

AND WHEREAS the Party of the Second Part applied for capital investment in the said business from the **Party of the First Part**

AND WHEREAS the **Party of the First Part** agreed to provide investment funds to the said business by forming a **Joint Venture Agreement** subject to the following **terms and conditions**.

1. This JVA is valid for a period of **three (3) years** from the ______(date)_____ hereof unless extended or terminated or otherwise determined by mutual consent of both Parties.

2. At the beginning of this JVA, **K C G EQUITY (PRIVATE) LIMITED** agrees to provide provide investment contribution of Rs._____ (in words) ____ (Rs. ___ (in numerals) ___) to the Party of the Second Part for the purchase of __________ (purpose) ____________. The Party of the Secod Part agrees to accept this investment contribution at the beginning of the JVA and agrees to purchase the said equipment. The Party of the Second Part agrees to bear full responsibility for the equipment purchased and its safety and accepts that the equipment will be held as a security by the Party of the first part during the period of this JVA.

3. During the period of this JVA the Party of the Second Part shall make payments to the Party of the First Part which will constitute a repayment of the full (or percentage of) principal investment component. In addition, during the period of the JVA, the Party of the Second Part shall make payments of a portion of the revenue earned by the said business to the Party of the First Part. Thereby the Party of the Second Part agrees to pay a repayment of principal investment component and revenue share component as herein described.

A. **Repayment of Principal Investment Component:** During the period of the JVA, the Party of the Second Part shall pay the Party of the First Part a total sum equal to the full (or percentage of) investment contribution made by the Party of the First Part in the said business. The party of the Second Part shall pay this Principal Investment Component to the Party of the First Part as an amount of Rs. __(amount)__ per month for a period of 33 months beginning from three months after the commencement of this JVA, that is ___(date)___ on or before the 30th of every month.

B. **Revenue Sharing Component**: In addition to the aforesaid Principal Investment Repayment Component, during the period of the JVA, the Party of the Second Part shall pay the Party of the First Part, a revenue sharing component of __(percentage)__ of the revenue of the said business. This shall be calculated and paid monthly on or before the 30th of every month from the commencement of the JVA or from ___ (date)___.

C. **Purchasing and usage of equipment and revenue earnings:** Whereof if the said equipment has not been purchased and used and revenue has not been earned by ___(date: 3 months)___ the party of the Second Part shall pay the Revenue Sharing Component at ___(increased rate)__ % per month. This shall be calculated and paid monthly on or before the 30th of every month, from ___(date)_____,until the equipment is purchased and used and revenue is being earned.

4. The Party of the Second Part shall send Accounts relating to total revenue and other details each month commencing from ___(month)___ to the Party of the First Part, as per formats requested by the Party of the First Part. The accounts relating to a particular month shall be sent via registered mail within 10 days after the end of each month.

5. After receipt of the Accounts the Party of the First part shall notify the Party of the Second Part of the amount payable in respect of the operations of the business of the previous month. The amount payable by the Party of the Second Part to the Party of the First Part will be due in cash (not cheque or other means) within 10 days of such notification

6. The Books of Accounts of the said business shall be kept open by the Party of the Second Part for inspection by the Party of the First Part or its authorized agents at any time so requested.

7. **Early Buy-out of Investment Contribution:** The party of the Second Part may conclude the commitment on the JVA by repayment of a lump sum to the Party of the First Part as described herein;

After the 12th monthly payment, by paying 120% of the principal amount outstanding to the Party of the First Part. This will amount to Rs. __(amount)__.

After the 24th monthly payment, by paying 140% of the principal amount outstanding to the Party of the First Part. This will amount to Rs. __(amount)__.

8. The joint venture business shall be carried under the same name and style of the business of the Party of the Second Part and the Party of the First Part shall not be considered as a Partner or Agent of the said business.

9. All liabilities and responsibilities of the said business whether arising before or after this JVA shall be borne by the Party of the Second Part and the Party of the Second Part shall indemnify and save harmless the Party of the First Part of any liability, claim or responsibility arising out of the said business or with regard to the employees.

10. The Party of the First Part shall act in advisory capacity for the said business but shall not engage in the management, marketing and sales of the said business. Provided however that in the following matters with regard to the said business the Party of the Second Part shall obtain the consent of the Party of the First Part

1. Sale, mortgage, pledge, lease or any other transfer, alienation or disposal of the Assets of the business,

2. Any borrowing for the said business other than in the normal course of business,

3. Providing credit or loan facilities other than in the normal course of business,
4. Preparation of Annual Budgets of the said business,
5. Appropriation of profits of the said business,
6. Recruitment of staff for the said business. .
7. Engaging new partners or investors for the said business.
8. Changing or closing the place of the said business
9. Closure of the said business or changing the nature of the business.
10. Temporary suspension of the said business.

11. Both Parties shall promote, develop and encourage the business.

12. Upon the aforesaid Investment Contribution has been made both parties agree to meet twice every year for reviewing the progress of the said business during the validity period of the JVA.

13. **Termination -** In the event of one Party violating or breaching any of the conditions hereof, then the other Party shall give One (1) months notice in writing to the other Party to fulfill the obligation. At the end of the said period of one month if the other Party fails to fulfill the said obligation, then this Agreement could be terminated by the aggrieved Party after the said one month period.

14. **Accounts -** At the expiration, termination, cancellation by mutual consent of this JVA, or closure of the business, the total amount due as per Clause 7 above shall be settled forthwith by the Party of the Second Part to the Party of First Part.

15. **Amendments -** Both Parties could amend any clauses to this JVA by mutual consent in writing and shall form a part of this Agreement.

16. **Assignability** - The Parties shall not transfer or otherwise dispose or assign any of its rights and obligations under this agreement to any third party without prior approval of the other **p**arty.

17. **Agency** – This Agreement shall not be construed as either Party **being** an agent, representative or partner of the other Party.

18. **No waiver –** The failure by either Party to enforce at any time any one or more of the terms or conditions of this Agreement shall not be considered as a waiver of them or of the right at any time subsequently to enforce all terms and conditions of this Agreement.

19. **Severance** – If at any time any provision of this Agreement shall in whole or in part be held to any extent illegal or unenforceable that term or provision or part shall to that extent be deemed not to form part of this Agreement and the enforceability of the remainder of this agreement shall not be affected.

20. **Force Majeure -** Neither Party shall be held liable for any failure or delay in the performing of any of the obligations on its part to be performed hereunder, if and to the extent such failure or delay is caused by any cause or causes beyond reasonable control of such Party.

21. **Arbitration –** Any and all disputes, controversies and differences arising between the Parties hereto out of or in relation to this Agreement or interpretation of any condition or any breach thereof shall be finally settled by arbitration to be conducted in Sri Lanka in accordance with Arbitration Act of Sri Lanka.

    The Arbitrator shall be the Chamber of Commerce of Hambantota or any other Arbitrator appointed by mutual consent of both Parties.

    If one of the Parties does not cooperate with or remains absent at hearing, the Arbitrator would be at liberty to proceed ex-parte.

    The arbitration proceedings shall be held in Hambantota and the language of the proceedings shall be Sinhala.

    The award made at an arbitration held as provided herein shall be final and conclusive and binding on both Parties.

    The costs relating to arbitration shall be borne equally by both Parties.

22. **Governing Law** – This Agreement shall be governed by and construed in accordance with the laws of Sri Lanka.

23. **Notices –** Every notice required or contemplated by this Agreement shall deemed to have been sent if sent under registered cover to the addresses of the Parties hereinbefore mentioned.

24. **Good Faith** - If in the course of implementing this Agreement, there is any unfairness to any Party that is disclosed or anticipated, then both parties declare their intention to use their best endeavors to agree upon such action as maybe necessary and equitable to remove the cause of the same.

In witness whereof Party of the First Part and the Party of the Second Part set their respective hands and Common Seal hereunto and to three similar others at **Hambantota** on this __(day)__ day of ___(month)___, __(year)__.

The Common seal of K C G EQUITY (PRIVATE) LIMITED was affixed hereto in the presence of the Chairman.

The Common seal of ___(business name)___ was affixed hereto in the presence of its Owner.

WITNESSES;

We do witnesses hereby declare that we are well acquainted with the executants hereof and know their proper names occupations & residences.

1. Signature ________________
   Name ________________
   NIC No ________________
   Address ________________
   ____

2. Signature ________________
   Name ________________
   NIC No ________________
   Address ________________
   ____

____

Notary Public